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UNCLAS SECTION 01 OF 02 BRASILIA 003051

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E.O. 12958: N/A

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SUBJECT: BRAZIL CORRUPTION SCANDAL UPDATE, WEEK OF 14-18
NOVEMBER 2005

REF.: A) BRASILIA 3001 B) BRASILIA 3043 C) BRASILIA 3008

1. INTRODUCTION. On Monday, November 14, the political crisis that has engulfed the Lula administration and hindered the work of the Brazilian Congress reached the six-month mark. From the day a Postal Service employee was caught receiving bribes in the name of a federal deputy, various corruption scandals have emerged, leading to the removal or resignation of dozens of government officials, from ministers to heads of state companies, and to the installation of three Congressional Inquiry Committees (CPIs) to investigate the allegations. Nonetheless, many questions are still unanswered, 12 federal deputies are awaiting trial by the Chamber -- including former Chief of Staff Jose Dirceu -- and two of the CPIs (Postal Service and Vote-Buying Scheme) reached the deadlines established by congressional rule without coming to a final conclusion. The governing coalition struggled to prevent the extension of the CPIs in an attempt to abbreviate the crisis, but were only successful in the case of the Vote-Buying Scheme CPI, which expired without voting on a final report.

Postal CPI Extended, Vote-Buying CPI Expires

2. On November 11, the Postal Service CPI was able to achieve the necessary number of signatures in order to extend its deadline until April 11, 2006 (Note: the minimum required is 171 deputies and 30 senators). However, soon after the Senate announced the extension of the CPI's mandate -- and reportedly after the government liberated funds for various programs supported by various deputies' -- many deputies removed their signatures from the petition, leaving it with only 170 names. The opposition requested a recount of the signatures and achieved the 171 required, but two deputies from the government coalition are still appealing to the Chamber's board, stating that they also requested the withdrawal of their signatures. If the deadline is not extended, the final report must be voted on by December 11; however, the Chamber's board is likely to reject the appeal of the two deputies and extend the work of the CPI.

3. In the case of the Vote-Buying Scheme CPI, whose deadline was reached on November 17, the government won the struggle against the opposition to prevent the extension of its mandate. In fact, the government coalition also wanted to end the Postal Service CPI, which is the most active in bringing to light new revelations about the corruption scandals. In contrast, the Vote-Buying Scheme CPI, whose final report was dealt leniently with corrupt congressmen, had failed to come up with hard evidence of the alleged vote-buying scheme.

4. Without the necessary number of signatures to approve the continuation of its investigations, the Vote-Buying Scheme CPI ended without even voting on the final report prepared by Deputy Ibrahim Abi-Ackel (PP-MG), which concluded that, although many congressmen received money from Marcos Valerio, there was no evidence to prove the existence of a bribes-for-votes scheme in Congress. The final report recognized the electoral crimes committed by the deputies that illegally financed their campaigns, but did not name names. In sum, the CPI terminated after four months of investigations without presenting any substantial conclusion.

5. Since it was the last one to be established, the Bingos CPI, responsible for investigating the use of bingo houses for money laundering and corruption allegations in Brazilian municipalities, has not yet reached its deadline. During this past week, it once again dedicated its sessions to the case of Celso Daniel's murder. On November 17, the CPI heard the testimonies of Ronan Maria Pinto and Klinger Sousa, accused of participating in the corruption scheme in Santo Andre, and Sergio Gomes da Silva, known as "Sombra", supposedly the person that ordered Daniel's assassination. Sombra, who had been arrested for Daniel's murder, denied all the accusations against him and stated that he was another "victim" of the case. In addition, Senator Suplicy found two additional witnesses to the case. A woman, whose identity is being kept secret, was interrogated by the

police on November 16, and affirmed that she saw Mayor Daniel arguing with the kidnappers before being taken, and that Sombra was not menaced by the bandits and was talking on the phone during the kidnap.

CHAMBER MAY AGAIN POSTPONE VOTE ON DIRCEU'S IMPEACHMENT

16. The Chamber's Constitution and Justice Committee (CCJ) may approve on November 22 a petition presented by Deputy Jose Dirceu requesting the postponement of his impeachment vote in the Chamber, originally scheduled to take place on November 23. On November 7, Dirceu appealed to the CCJ arguing that he had not been given adequate chance to defend himself and, therefore, his case should not be voted on by the plenary until all of his appeals had been considered either by the Chamber or by the Supreme Court. Deputy Sergio Miranda (PDT-MG), responsible for analyzing Dirceu's request, suggested that the Committee approve Dirceu's request on November 22. If that happens, the final impeachment vote may only take place on November 30.

FINANCE MINISTER TESTIFIES BEFORE SENATE COMMITTEE

17. On November 16, Finance Minister Antonio Palocci testified before the Senate's Economic Affairs Committee. Palocci was scheduled to testify before the Committee on November 22, but moved his appearance up in the wake of an increase in rumors that he might be forced to resign because of new accusations of corruption, involvement in the irregular financing of the 2002 Lula presidential campaign and policy disagreements with Lula's chief of staff, Dilma Rousseff. Those rumors had had a negative effect on Brazilian financial markets. Following his appearance, the markets regained the ground lost in the days before his testimony.

18. While Palocci had previously threatened to resign if he was called to testify by the Bingos CPI, which has been investigating corruption schemes in Brazilian municipalities such as Ribeirao Preto, where Palocci served as mayor, during his testimony before the Economic Affairs Committee, he said he was available to appear before any Congressional body. Refs B and C examine Palocci's situation in more depth.

CHICOLA